COUNCIL ON REVENUES

STATE OF HAWAII
P.O. BOX 259
HONOLULU, HAWAII 96809-0259

March 16, 2015

The Honorable David Y. Ige
Governor, State of Hawaii
Executive Chambers
State Capitol, Fifth Floor
Honolulu, HI 96813

Dear Governor Ige:

At its meeting on March 12, 2015, the Council on Revenues raised its forecast for growth in the State's General Fund tax revenues in fiscal year (FY) 2015 from 4.5% to 5.5%.

The Council kept its forecasts for growth in FY's 2016 to 2018 at 5.5% for each year, but lowered the forecast for growth in FY's 2019 to 2021 from 5.5% to 5.0%. Because the growth rate forecast for FY 2015 was increased, the Council's estimate of the General Fund revenue from FY 2016 to FY 2018 is increased, even though the growth rate forecast for those years was left unchanged, because the higher forecast for FY 2015 raised the amount of revenues in the base period by 1.0%.

In reaching the new forecast, the Council noted that General Fund tax revenues grew faster so far in FY 2015 than their earlier forecast and that the recent economic growth is continuing. The Council also recognized that the February Preliminary State General Fund Tax Revenues reflected a much higher growth rate due to the fact that the Tax Department has slowed processing of approximately $89.6 million in refunds because of a spike in tax refund fraud. The members discussed the possible effects of tax fraud and tax noncompliance, and noted that the effects on growth forecasts were uncertain.

Council members felt that the significant drop in oil prices will benefit Hawaii's economic growth. For tourism, the recent increases in the value of the dollar against the Japanese yen, the Euro, the Canadian dollar and other currencies will raise the relative price of a Hawaii vacation for foreign visitors and therefore may adversely affect tourism growth, but the effect was not expected to be large and, overall, tourism was expected to continue to grow at a slow rate. U.S. tourists may more likely visit foreign countries due to the weaker foreign currencies, but it was felt by some that this would mainly affect those visitors from the East Coast.

The members also discussed the recent performance of the construction tax base and the possibility that an expected growth in construction may yet materialize.

Revised forecasts of State General Fund tax revenues for FY 2015 through FY 2021 are shown in the table below. As in all multi-year forecasts, the estimates for the later years are subject to greater uncertainty.

General Fund Tax Revenues

Fiscal Year	Amount (in Thousands of Dollars)	Growth From Previous Year
2015	5,665,633	5.50%
2016	5,977,243	5.50%
2017	6,305,991	5.50%
2018	6,652,821	5.50%
2019	6,985,462	5.00%
2020	7,334,735	5.00%
2021	7,701,472	5.00%

In producing its forecasts, the Council adopted specific adjustments recommended by the Department of Taxation to reflect effects on General Fund tax revenues of tax law changes enacted by the 2014 Legislature, including the following:

- Act 107, SLH 2014 reestablishes the energy systems development special fund. It also extends the $1.05 per barrel rate for the environmental response tax, which was set to expire at the end of fiscal year 2015, through fiscal year 2030, as well as the allocations of the tax to the general fund. The annual general fund revenue gain is estimated to be a loss of $2.6 million for fiscal year 2015 and annual revenue gains of $15.5 million for fiscal years 2016 through 2030.

- Act 163, SLH 2014 increases allocations of the conveyance tax to the rental housing trust fund from 30% to 50% beginning July 1, 2014. The annual general fund revenue loss is estimated to be $11.5 million per year in fiscal year 2015 and later.

- Act 174, SLH 2014 increases allocations of the TAT to the counties from $93 million to $103 million for fiscal years 2015 and 2016. The general fund revenue loss is $10 million in fiscal years 2015 and 2016.

The Council also took into account provisions from earlier legislation, including the following:

- Act 89, SLH 2013 amends the motion picture digital media and film production tax credit. The Act increases the credit rate from 15% to 20% for productions on Oahu and from 20% to 25% for productions on the neighbor islands. The Act also increases the cap on the amount of the credit per production from $8 million to $15 million and moves the expiration date for the credit from January 1, 2016 to January 1, 2019. The Act is estimated to raise the annual cost of the tax credit by about $21 million over the level in FY 2013.

- Act 161, SLH 2013 makes permanent the Transient Accommodations Tax (TAT) rate of 9.25% and the caps on TAT allocations to the special funds. The Act raises the cap on the allocation to the Tourism Special Fund by $11 million. Act 161 is estimated to reduce General Fund revenues by $11 million in FY 2014 and FY 2015, but is expected to increase General Fund revenues by amounts ranging from $177 million in FY 2016 to $246 million in FY 2020.

    - Act 163, SLH 2013 makes permanent the GET exemption for certain expenses paid by hotel operators and timeshare projects and removes the cap on the aggregate amount of the exemptions that can be claimed. The Act is estimated to reduce GET collections by about $20 million in FY 2014 and by about $13 million annually thereafter.

- Act 62, SLH 2011, allocates GET revenues directly to the Hurricane Relief Fund to replace amounts that were taken from the Fund in prior years. The Act will reduce GET allocations to the General Fund by $55.5 million in each of FY 2014 and FY 2015.

The Department of Taxation has prepared a report (attached) detailing line-item forecasts for various components of the General Fund, reconciled to the Council's forecast growth rate for total General Fund tax revenues. The line-item forecasts include components, such as revenues from the General Excise Tax and from the Individual Income Tax that the Council does not forecast separately. Also, the Department of Budget and Finance has prepared the attached report to update its projections for change in non-tax and special tax revenues from its report on January 6, 2015.

Please advise us if we can be of further assistance or if we can answer any questions.

Very truly yours,

KURT KAWAFUCHI
Chair, Council on Revenues

Attachments